LEVELING UP THE LAST MILE:

HOW FLEXIBLE APIs AND IMPROVED FORECASTING ARE ENABLING THE FUTURE OF DELIVERY

retail
TouchPoints®

SPECIAL REPORT

INTRODUCTION

The ecommerce surge that began nearly **three** years ago is showing no signs of abating — online sales are expected to account for **20.4%** of global retail sales by the end of 2022, up from **10% just five years ago**, according to data from **Statista**. This surge makes delivery one of the most important customer-facing operations in retail — few mistakes harm loyalty as much as a missed delivery, particularly during the holiday season.

"**The strength of fulfillment execution, including reliable delivery and returns, is a critical element of a retailer's ability to meet its customer promise**," said Sandeep Unni, Senior Director Analyst in the Retail Industry Research Practice at **Gartner** in an interview with *Retail TouchPoints*. "The high costs of fulfillment have eroded retailer profitability, particularly in digital channels. Efficient use of store inventory for fulfillment can reduce this challenge and improve overall profitability."

Rising costs for labor, storage space and transportation have driven the need for greater efficiency — even for more traditional fulfillment methods such as through warehouses. It's also fueled the increased need for store-based fulfillment. Keeping up with customer demands while maintaining margins requires retailers to invest in the right technologies, including:

- **Greater use of API and cloud-based systems:** Implementing a more flexible and powerful backbone for solutions lets retailers enable powerful machine learning-based options and enables easier integration with third-party platforms;

- **Improved forecasting up the supply chain:** Nothing can boost efficiency and reduce costs in last mile as effectively as reducing the physical distance products have to travel, but be careful with forecasting — poor data will produce poor results;

- **Data-powered third-party partnerships:** Data can improve the efficiency of third-party partnerships as well as internal last mile operations, and proper use of this technology can enable strong gig-based fulfillment options; and

- **Better store-based fulfillment using RFID:** Delivering from stores puts extra pressure on both associates and store shelves, so hyper-accurate inventory counts enabled by RFID are a necessity for success on this front.

Last Mile Market Poised for Growth, but Challenges Await

Demand for delivery is expected to remain elevated well past the pandemic, causing the amount invested to rise in the coming years:

- **Last Mile Market Growth Rate, 2022:** 13.5%
- **Last Mile Market CAGR, 2021-2026:** 13.1%
- **Share of Growth from North America:** 35%

However, customer expectations are on the rise:

- **Lower delivery costs** are expected, making preserving margin key
- **Real-time tracking** also is expected, requiring investment in tech like RFID

These operational challenges are expected to hamper the growth of the global market during the forecast period, leading to a decelerating CAGR.

Source: *Technavio*

THE RIGHT INTEGRATIONS CAN PREPARE RETAILERS FOR ANY LAST MILE CHALLENGE

Adaptability is paramount in a strong last mile program. Retailers need to be able to track inventory, deliver updates to shoppers and enable efficient picking, among other tasks — usually while working with one or more third-party partners. The processing power of cloud computing and the flexibility of API-based solutions are key to staying on top of every variable and moving part.

Retailers looking for the right platform need to take not just their own operations but their potential partners into consideration as well. A solution that can potentially boost efficiency, but that isn't compatible with a preferred logistics provider's API, may reduce its ability to communicate properly, which can in turn harm the customer experience.

"**I, as a merchant, want to make sure that I'm integrated and my APIs or my cloud based solutions are robust and can seamlessly integrate with any kind of system**," said Amit Prasad, Chief Data Science Officer at **Transportation Insight** in an interview with *Retail TouchPoints*. "So what kind of technologies do I use to be able to assimilate with the other systems out there?"

Retailers looking to bolster their last mile efforts with help from third-party services — whether to power delivery as a whole or to nail down differentiators like **30-minute** delivery — should put potential integrations front and center when choosing a software suite. Investing in the right technology now can pay off in the long term, when it inevitably comes time to add new capabilities or seek out new partners to power even better customer experiences.

"Many delivery companies have already invested in modern cloud-native SaaS applications to power last mile execution and delivery," said Unni. "**Retailers will need to migrate their core store and inventory systems to the cloud and adopt an API-first approach in their application architecture**. This will allow them to more easily integrate with third-party delivery platforms with lower overall development costs and enable reliable delivery promises for customers, as well as provide real-time updates to the customer on order status."

MAXIMIZE THE LAST MILE: DATA-DRIVEN STRATEGIES TO UNCOVER NEW ECOMMERCE OPPORTUNITIES

By Leo Castro, SVP, Merchant Marketing, Route

Optimizing the potential of the "last mile" is about more than successful logistics. It's a dynamic – and often untapped – opportunity for merchants to engage with customers and drive post-purchase loyalty and revenue-building. Route's platform utilizes data to connect merchants and shoppers with messaging to quadruple average post-purchase engagement.

Unlike in-person retail, ecommerce offers two peaks in the customer experience: one at checkout and a second at delivery. Between those two peaks are opportunities to apply tactics that grow customer lifetime value — which in today's environment has a higher ROI than those that drive new customer acquisition.

Savvy merchants use tools like SMS messages and email to engage with consumers and grow LTV, but are limited by what those channels can do to truly drive engagement. Successfully monetizing the full potential of the "last mile" centers on using data, technology and design to continue the customer conversation. Following are four ways retailers can put this strategy into practice:

1. Shift from email and paid retargeting to platform-based outreach.

Customers tracking orders through apps are already engaged with the brand; the eyeballs are already there. We find that Route customers typically engage with our platform eight to 10 times over their purchasing journey, versus two times via email. Creating an experience rather than just a transactional platform often has customers coming back to the app because they want to, not because they need to. Retailers should be thinking about how to weave in value propositions and how they can use this valuable real estate to drive growth.

ROUTE

2. Use data and design for enhanced merchant and customer experience.

Retailers need to interact with customers as much as possible, but that interaction has to be high-quality, highly personal and optimally aspirational. For example, Route makes tracking data not only easily accessible but compelling by providing innovative visual tracking in-app. Customers can follow their package on a real-view map as it makes its way from the merchant to their doorstep, adding to the anticipation of receiving it.

3. Become a single, simple platform for issue resolution.

Lost, damaged or stolen orders can be pain points for merchants and customers. Leveraging data from both the order and the shipping carrier, Route steps in with a one-click automated solution. That helps merchants reduce time spent processing claims by 90% and, more importantly, boosts customer satisfaction with a quick, easy solution if they encounter order issues outside merchants' control.

4. Incorporate individual customer data to customize cross-sell outreach.

Route's machine learning algorithm ties consumer behavior across millions of consumers and hundreds of thousands of sites to understand preferences in order to make suggestions unique to each merchant. For example, a consumer buying ski boots could be assumed to also want a jacket or goggles — cross-selling not only bolsters merchants' post-purchase strategies, it makes shopping even more personalized, white-glove and so much more than transactional.

ROUTE

FORECASTING IS A GAME-CHANGER, BUT GET YOUR DATA CLEAN AND SORTED FIRST

Demand forecasting is one of retailers' most valuable tools. It can ensure the right products arrive in the right quantities to the right locations to minimize last mile distances traveled, prevent unfortunate out-of-stocks in store-based fulfillment operations and protect margins by eliminating overstocks.

However, retailers need to understand their stores, warehouses and customers on a deep level before forecasting will work for them. Knowing what item is hot doesn't do anything if you don't also know **how much of that item is already in stock at any given location**. Rought estimates simply aren't good enough if you truly want to reap the benefits — true accuracy is everything in forecasting.

"Computer-aided ordering, as well as a lot of these forecasting tools, require that you have accurate data," said Greg Buzek, Founder and President of **IHL Group** in an interview with *Retail TouchPoints*. "**Using computer vision technologies to understand what's really on the shelves, not what the system says but what's really on the shelves, goes a long way to helping get you there**. Artificial intelligence, computer-aided ordering — all of these things — if not working from good data to start with only create worse decisions faster. But if you can get to that accurate, clean data, then the technologies can really add value."

Additionally, forecasting is just one piece in a larger puzzle. Putting more inventory in stores can bolster BOPIS options and reduce delivery windows for local customers, but it also can create a more complicated supply chain than having larger quantities delivered to a centralized location. Retailers need to understand and balance the competing needs of their shoppers, facilities and capabilities to come up with a plan that creates an optimal outcome for every aspect.

"A lot of shippers are reevaluating their supply chain network and moving from that traditional centralized hub-and-spokes model to more decentralized model," said Prasad. "I need to understand what is more important to me — **is it service, cost or an optimal combination of service and cost**? That decision will help you decide where you should place your inventory and where that warehouse should be located."

GIG APPS, RETAILERS' DELIVERY SOLUTIONS CAN CUT COSTS AND PROVIDE A BONUS: VALUABLE DATA

The size of the last mile delivery market is growing rapidly — the industry was worth **$40.5 billion** in 2021 and is anticipated to generate **$123.7 billion** in 2030, according to data from **Straits Research**. This rapid growth, combined with consistent demand for fast and convenient delivery, has opened the doors for a variety of new delivery models and third-party players to enter the space.

One solution that started in foodservice but has been making its way into retail is gig-based or "on-the-way" delivery services, which tap into a large pool of potential drivers to make deliveries fast and convenient. These services tend to incur lower startup and running costs, and they also generate a trove of last mile data for retailers, according to Prasad. However, these services can be challenging to tie into a retailer's overall end-to-end system in order to manage a consistent experience for shoppers, particularly in terms of live updates. "Providing end to end visibility to the end user is going to be a very big challenge," he said.

Retailers also should be willing to consider the delivery services provided by larger competitors, like Walmart's **GoLocal** or **Gap's GPS Platform Service**. These platforms can be cost-effective and provide benefits for all involved.

"The advantage for Walmart [GoLocal] is that they are getting the local delivery data that will help them make much more informed decisions about what kind of product is in demand in which area, and build their delivery policies around that accordingly," said Prasad. "**It's a competitive advantage for them. It's also helping a lot of these smaller merchants to be able to handle last mile without investing too much by leveraging what Walmart has already built and proven**."

Regardless of how retaiers are fulfilling orders, they should aim to leverage the data they have to stay in touch with the customer and ensure a great experience through delivery

"The post-purchase experience is an overlooked value driver in the customer journey," said Leo Castro, SVP, Merchant Marketing at Route in an interview with *Retail TouchPoints*. "It's the valley that connects the two 'peaks' of ecommerce: checkout and delivery. By leveraging data to create visually appealing tracking and thoughtfully relevant cross-sell, that wait becomes experiential, not transactional, building value for merchants and encouraging consumers to keep coming back to the merchant as a habit."

RFID CAN TURN THE STORE INTO A MINIATURE WAREHOUSE

The benefits of RFID technology at the warehouse level are well-known — from preventing lost pallets to improving picking speed — but the technology also can shine in-store. Further potential can be realized by tying RFID tags into an electronic shelf label (ESL) system to make stores an easily navigable fulfillment center, even for new associates.

"RFID not only provides timely and accurate inventory information that can be used as input to optimize order picking and orchestration, it also allows store associates to accurately locate items to be picked from the shelf or stock room, significantly improving picking accuracy and labor efficiency," said Gartner's Unni. "**Similarly, many ESL vendors in the market offer Pick by Light capabilities through flashing LEDs on the ESL to help store associates locate items more easily and to improve pick accuracy and efficiency in the store**."

Additionally, Unni noted that "associate experience and labor optimization in physical stores are key competitive differentiators for retailers," which makes these technologies important given the current labor crunch.

A good inventory system also can enable some of the efficiencies of a warehouse in a store setting. Buzek noted that some top retailers are setting aside significant space specifically for their most popular online items, making it easy for pickers to access them and ensuring stock remains steady. However, maintaining two separate inventories in one space requires precise knowledge of which item goes where.

"There's a lot of inefficiency related to the buy online, pick up in-store or click-and-collect model that is in place," said Buzek. "When you're competing with a walk-in shopper, that inventory may have been there when the person placed the order, but by the time somebody goes out there to pick it it's gone. **The ability to take the top, say, 5,000 items and have a dedicated inventory only for online orders, protected from the general public, is very important to ensure profitability**."

ROUTE

Route is the e-commerce platform that currently connects 18,000 merchants with 32 million shoppers. Consumers come to Route for a streamlined, visually appealing way to track all their orders, regardless of merchant or carrier, and stay for a personalized, experiential shopping journey from checkout to doorstep. Route's platform takes a holistic approach to online shopping, from delivery to discovery, while offering a suite of features that give merchants a powerful, data-driven toolkit for using the post-purchase experience to boost engagement, cross-selling revenue and customer loyalty.

route.com/merchants

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